

**San Antonio Airport System
Speaking Points – City Council Briefings
Airline Use and Lease
Date: June 6, 2024**

OVERVIEW

What Is An Airline Use and Lease Agreement (AULA) Agreement?

- The San Antonio International Airport (SAT) has used an Airline Use and Lease Agreement to establish what airlines can do at an airport and what an airport is obligated to do for the airlines. In short, it sets the fees and responsibilities for both parties at a commercial airport and follows federal regulations.
- Through an AULA, the airport and signatory airlines negotiate the rate and terms of the agreement, a process that generally takes 18 to 24 months to come to a consensus and when one airline signs it becomes executable (once City Council approves).
- The AULA process is one of the major tools used at commercial airports throughout the United States to set the rates and regulations.
- For this Agreement with a 15-year term, the City hired an outside firm (Kaplan Kirsch) which specializes in airline/airport agreements to assist the City Attorney's Office throughout the negotiations.

Structure of the Negotiations

- The airlines in the negotiations include the signatory carriers to the original agreement which includes American, Delta, Southwest, United (all legacy carriers) and the two major cargo firms, Fedex and UPS. Spirit became a signatory airline in October 2023.
- The airlines formed a committee with an airline technical representative (an agnostic third-party that represents the airlines as a whole). Southwest Airlines was made the chair of the committee but it is majority rule.

Timeline

- We kicked off the AULA negotiations in 2022, initially meeting monthly but as of August 2022 became bi-weekly.
- In October 2023, the participating airlines and Airport team agreed in principal to a schedule for a draft full AULA to be readied by November 2023 and finalized by April 2024 with anticipation of one airline partially executing the agreement by August 2024 for a full City Council consideration in September 2024. This schedule was developed in alignment with the schedule of the Terminal Development Program and to have the Master Architect and the Construction Manager at Risk (CMAR) involved in the process and, more importantly, this schedule was intentionally structured so the new rates are beneficial for terminal debt payment.

Gating

- During the negotiations, we met with each airline to ask them to provide their forecasted plans and long-term goals at SAT which would be vital to the determination of the gating assignments in the new terminal.
- For example, the new terminal would have the opportunity for airline lounges and have the Federal Inspection Station (Customs) for international flights, so priority consideration would be given to those airlines who committed to those attributes.
 - This input will help ensure we have a balance of passenger activity across the complex to minimize crowding at the checkpoints, baggage claim area, holdrooms, curbside and parking.
- Several models were established and vetted in congruence with all technical data and a keen focus on ensuring we provide the best level of service possible and balancing all terminal operations. With current and future Passenger Activity Levels, along with expedited growth patterns, not all airlines can be moved into the new terminal.
- All airlines expressed the need for new gates. Two requested clubs.
- Southwest asked for the most gates but provided with no formal or written commitment. They did share that had financial concerns and expected to have fewer aircraft at the end of the year.
- We've made headquarter visits to each of the major carriers to better understand their growth plans. We want to avoid any air carrier requesting more gates than they can use to purposefully block other carriers from growing at SAT.

Next Steps

- More than one airline has indicated that they are ready for the negotiations to reach completion and the agreement signed.
- Jesus and his team have offered to meet with each airline to discuss their gating assignment with the intention that all airlines would receive the complete gating assignments at the June 21st meeting.

What Are the Options if AULA Negotiations Reach a Stand-Still?

- While the City has used the ALUA, it can use another option used by other airports – Rates By Ordinance. Under this process, the City would establish rates and charges for the use of their airport by air carriers, by ordinance — an agreement between the airport and the carriers serving the airport is not required. Rates established by ordinance must be fair, reasonable and not unjustly discriminatory and should be established on a compensatory basis.

For the past year-plus we've been negotiating a long-term Airline Use and Lease Agreement with the airlines.

We are following a process that is heavily regulated by the Feds and similar to the way leases are negotiated at many airports around the the country. (In fact, we hired a specialized attorney from DC, who represents many other airports in similar negotiations.)

The signatory airlines – America, Delta, Southwest, Spirit, United, Viva Aerobus, and Fed Ex – have formed a committee to negotiate. They have an Airline Technical Rep, who speaks on their collective behalf, and there is a Chair, which is Southwest Airlines, due to the 40% market share they have at SAT.

We don't have to go this route – we could simply ask the City Council to approve the rates by ordinance – but we believe this is the best path, because the revenues the airlines generate will pay for the improvements we are making at the airport. It is a symbiotic relationship: their growth in service supports the expansion of our facilities, which benefits our shared customers.

We have intentionally structured the proposed agreement so that their new rates kick in when we open the new terminal, so that their payments help us make the debt payments on the building.

As mentioned, we've been at this for more than a year.

We've asked each of the airlines to make commitments

- How many gates do you want?
- Do you want to build a club or lounge?
- Will you be flying internationally, either through your branded planes or through a partner (such as Delta and AeroMexico.)

American and Delta have each told they want clubs for their passengers. We currently have one small club in Terminal B for United.

Every carrier has asked for more gates. Most of them want 1 or two more gates. Southwest has asked for the most – 10 gates, up from the 7 they have today.

However, Southwest has not been willing to make any commitments regarding increased nonstop service. Worse, they have expressed financial concerns and have shared with us that they will have fewer planes at the end of this year than they do today. We are concerned that their gate request is ultimately a play to block their competitors from growing. In fact, they could spread their current flights among the existing gates and meet our minimum requirements without adding service.

So after more than a year of negotiating, we are where we expected – and frankly, wanted – to be: with the airlines jockeying, trying to elbow out each other.

With this context in mind, we are preparing at our June 21 meeting to share our recommended gate assignments. A couple of things to know:

1. Not all carriers can fit in the new terminal, so someone will be unhappy.
2. We have to balance the load of passengers across the terminal, so we don't have overcrowding in:
 - Security
 - Ticketing
 - Baggage
 - Curbside
3. The new terminal will include our new federal inspection service and the international gates, so we are prioritizing carriers who fly internationally, and the new terminal is where we will build out the shells for new club lounges. So we've prioritized carriers who meet those needs.

You can see where this is going. Southwest, who is the largest carrier at SAT today, is not recommended for the new building. Between their lack of international service, no club, financial struggles and an unwillingness to commit to future growth at the airport, it makes sense for us to keep them in Terminal A. We could potentially offer them a lesser rate than the carriers in the new building. As part of the TDP, we will make improvements to A and we will reduced the number of gates to allow for bigger holding areas and less crowding in the terminal.

We expect that Southwest may complain to you, so we wanted you to be aware of the situation.

SW is chair of the airline committee, but the AULA is a majority vote. The rest of the airlines are ready to sign a deal, but Southwest is holding it up.

This is critical – it's 15 year deal – and it locks in the airlines' payments that will pay for that building. You will approve the lease in the fall.